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Montana Lottery

Annual Report

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The Montana Lottery closed the 1991/92 fiscal year with a record $28 million in sales, an impressive 17% increase over the year before.

Since its inception in June of 1987, the Lottery has generated nearly $25 million for the programs it supports. Other winners were the Lottery retailers, whose commissions have amounted to $6.3 million, and naturally, the Lottery players, to whom over $52 million of the Lottery revenues have been returned in the form of prizes.

The purpose of the Lottery is to generate revenues for essential state programs, such as elementary and secondary education and juvenile detention facilities.

With the dedication and commitment of the Lottery Commission members, I am confident that the Montana Lottery will continue to increase its contribution to the worthwhile programs it helps fund.

Sincerely,

Stan Stephens, Governor

Background

The Lottery is attached to the Department of Commerce for administrative purposes. The Governor appoints a Lottery Director and members of the Lottery Commission.

Lottery Director: Sandra Guedes

The Lottery Commission is composed of five members of the private sector, who are appointed by the Governor of Montana to serve staggered four year terms. The Commission sets policies, oversees Lottery activities and procedures, and advises the Governor on matters related to the Lottery. The members are:

- Ward Shanahan, Chairman, Attorney, Helena
- Rebecca Erickson, Restaurant Owner, Glasgow
- Dwaine Iverson, Certified Public Accountant, Shelby
- David Kasten, Rancher, Brockway
- William Ware, Chief of Police, Helena

The Legislative Liaison Committee is composed of four legislators, with equal representation from the Democratic and Republican parties. Two members of the Committee are appointed by the President of the Senate and two by the Speaker of the House. The Montana Lottery has a legislative Committee, whose duty is to meet with the Lottery Commission and Director at least once each year and report to the legislature on the activities and operations of the Lottery.

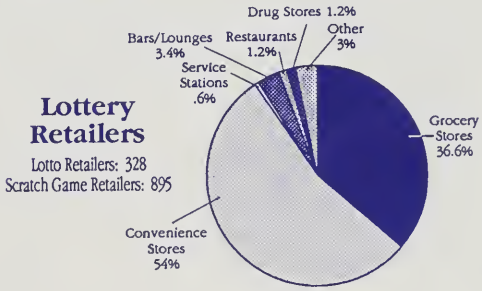
For a more detailed look at the operations of the Montana Lottery, please refer to the Montana Lottery's Operating Plan which outlines the structure, operations, and marketing plan for fiscal year 1992/93.

Lottery Audits

Lottery security systems and controls are thoroughly audited by the Legislative Auditor's staff on a biannual basis, with the findings reported to the Legislative Audit Committee prior to each regular session of the Legislature. The Lottery's finances are also audited, on an annual basis, by an independent CPA firm hired by the Legislative Auditor's office. The results of the Lottery's fiscal year 1991/92 financial audit are the basis of this report.

Lottery Products

During fiscal year 1991-92 the Lottery marketed a variety of Scratch games and two lotto games, Montana Ca$h and Lotto*America. In April of 1992, Lotto*America was replaced by Powerball. Players pay $1 per ticket or play. There are 895 retailers across the state who are licensed to sell Scratch tickets, while 328 of those retailers also offer lotto games.



Operations & Profits

Lottery operations are funded through the sale of scratch and Lotto tickets. Section 23-7-402, MCA, specifies how each dollar spent on Lottery tickets is to be distributed. Listed below is an overview of sales and expenditures since 1987.

Overview of Revenues, Expenditures & Transfers

	FY 87-88	FY 89	FY 90	FY 91	FY 92
Sales	$25.6	$11.6	$21.5	$23.9	$28.0
Prizes	$11.5	$5.3	$10.2	$11.7	$13.6
Commissions	$1.4	$.7	$1.3	$1.3	$1.6
Ticket Costs	$.9	$.6	$2.9	$4.0	$4.2
Operations	$3.6	$2.1	$2.9	$2.7	$3.0
Proceeds to School Equalization Aid Account	$8.3	$2.8	$4.2	$4.2	$5.5
Proceeds to Board of Crime Control	N/A	N/A	N/A	N/A	$.1

(All figures in millions of dollars.)

Explanation of Categories:

Sales: Gross revenues

Prizes: A minimum of 45% of all sales revenue is returned to players in the form of prizes.

Commissions: Lottery retailers earn a 5% commission on every ticket sold. They also have an opportunity to earn additional money on scratch tickets sales through a retailer incentive program. Every scratch ticket sold over the established base qualifies for bonuses ranging between 1% and 5%.

Ticket Costs: Each scratch ticket cost approximately 5 cents, while Lotto tickets cost approximately 19 cents each. Ticket costs for these products include depreciation of hardware, amortization of software, ticket stock, printing, shipping, personnel and vendor profit.

Operations: Operational costs include all administrative expenses associated with the Lottery, including staffing, advertising, warehousing, inventory control and data processing.

School Equalization Aid Account: Lottery revenues are used by the state to help fund the School Equalization Aid Account. Net revenues are transferred on a quarterly basis to the account.

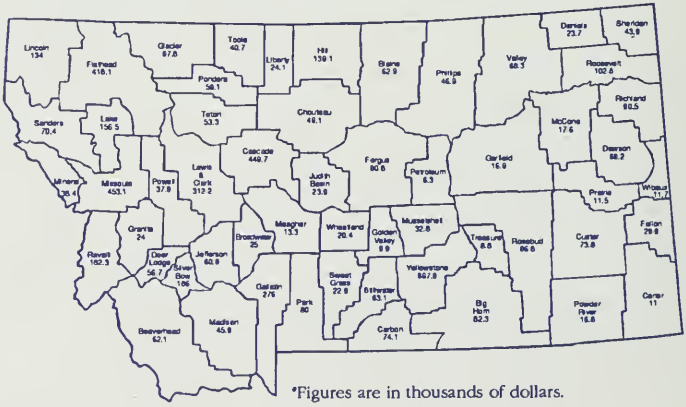
Board of Crime Control: For the first time, Lottery revenues were used to help build and maintain juvenile detention facilities. Those funds are overseen by the Board of Crime Control, and received by them on a quarterly basis.

Lottery Funding and Distribution

Revenues generated from the sale of Lottery tickets help fund the School Equalization Aid Account and juvenile detention facilities managed by the Board of Crime Control. During fiscal year 1991/92, the Montana Lottery contributed $5.5 million for the School Equalization Aid Account. To the right is an overview of how Montana's 56 counties benefited as a result of Lottery funds.

For the first time, Lottery revenues were also used to fund juvenile detention facilities. As mandated by law, 1.6 percent of the Lottery's net revenues were transferred to the Board of Crime Control during fiscal year 1991/92, for a total of $90,000

School Equalization Aid Distribution • July 1, 1991-June 30,1992



*Figures are in thousands of dollars.

Lottery Prizes

Approximately half of the money generated through sales goes back to players in the form of prizes. During fiscal year 1991/92 two Lotto*America jackpots were won, for combined winnings of $49 million. Between April and June of 1992, four players won the second-tier Powerball prize of $100,000. The Lottery also paid out $1,269,300 to MONTANA CA$H jackpot winners, and thousands of other prizes to scratch players, ranging from $1 to $5,000.

Top Prize Winners • July 1, 1991 - June 30, 1992

Independent Auditor's Report

Commissioners
Montana State Lottery
Helena, Montana

We have audited the balance sheets of the Montana State Lottery, a component unit of the State of Montana as of June 30, 1992 and 1991, and the related statements of revenue, expense and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Montana State Lottery as of June 30, 1990, were audited by other auditors whose report dated September 13, 1990, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 1992 and 1991 financial statements referred to above present fairly, in all material respects, the financial position of the Montana State Lottery as of June 30, 1992 and 1991, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Douglas Wilson & Company, P.C.

September 11, 1992

Douglas Wilson & Company, PC
Established 1913

Balance Sheets

	Years Ending June 30		
	1992	1991	1990
CURRENT ASSETS			
Cash and cash equivalents	$1,447,158	$975,605	$1,341,235
Accounts receivable	661,160	602,632	771,995
Inventory	140,671	173,921	108,456
Interest receivable	4,918	--	--
Prepaid expenses	1,717	8,088	1,928
Employee advances	5,000	5,000	5,940
	2,260,624	1,765,246	2,229,554
FIXED ASSETS			
Computer, furniture and equipment	706,407	762,715	772,183
Computer software	772,665	840,400	840,400
	1,479,072	1,603,115	1,612,583
Less:			
Accumulated depreciation and amortization	(1,247,491)	(1,091,024)	(846,062)
	231,581	512,091	766,521
OTHER ASSETS			
Multi-State lottery receivable	571,823	542,809	--
Advertising license fee, net of accumulated amortization of $52,124 in 1992, $30,261 in 1991 and $47,857 in 1990	--	21,863	52,143
	571,823	564,672	52,143
TOTAL ASSETS	$3,064,028	$2,842,009	$3,048,218
CURRENT LIABILITIES			
Long-term debt due within one year	$ --	$70,033	$ 165,284
Accounts payable and accruals	417,829	340,871	329,526
Due to State Superintendent of Public Instruction, School Equalization Fund	1,237,357	1,092,397	1,519,520
Due to other state agencies	123,070	97,048	76,430
Accrued compensated absences	126,424	99,549	94,392
Estimated prizes payable	1,029,071	994,758	695,144
Deferred on-line revenue	104,000	19,629	20,029
Allowance for ticket returns	24,917	129,751	147,893
	3,062,668	2,844,036	3,048,218
FUND EQUITY (DEFICIT)			
Contributed capital	1,360	--	--
Unreserved retained earnings (deficit)	--	(2,027)	--
TOTAL LIABILITIES & FUND EQUITY	$3,064,028	$2,842,009	$3,048,218

See the accompanying independent auditors' report and the notes to financial statements.

Statements of Revenue, Expense and Changes in Retained Earnings

	Years Ending June 30		
	1992	1991	1990
OPERATING GROSS REVENUES			
Instant ticket games	$ 9,248,920	$ 8,170,377	$11,619,715
On-line games	18,673,019	15,761,001	9,890,070
Gross ticket revenues	27,921,939	23,931,378	21,509,785
COST OF TICKET REVENUES			
Instant ticket prize expense	5,094,809	4,672,276	5,549,622
On-line ticket prize expense	8,456,198	6,986,546	4,639,706
Retailer commission	1,609,178	1,346,955	1,352,477
Cost of tickets sold	479,346	503,516	552,884
On-line vendor fees	3,741,750	3,539,506	2,358,147
Total cost of ticket revenues	19,381,281	17,048,799	14,452,836
Net ticket revenues	8,540,658	6,882,579	7,056,949
License fees	4,350	4,350	4,150
Net operating revenue	8,545,008	6,886,929	7,061,099
OPERATING EXPENSES			
Advertising	669,472	622,030	779,968
Amortization	120,456	198,341	204,747
Bad debt	4,760	668	--
Communications	75,121	73,970	67,710
Contractual services	527,062	368,274	364,667
Depreciation	116,716	119,055	118,258
Management service fee	94,740	78,627	78,172
Multi-state operating fees	44,268	33,807	25,788
Personal services	1,114,772	966,940	919,490
Repairs and maintenance	77,085	77,878	83,709
Supplies and materials	48,256	46,326	103,051
Utilities and rent	95,165	96,536	95,280
Travel	40,003	35,054	41,706
Other	20,996	21,245	29,964
Total operating expenses	3,048,872	2,738,751	2,912,510
NET OPERATING INCOME BEFORE NON-OPERATING REVENUES, EXPENSES & TRANSFERS	5,496,136	4,148,178	4,148,589
NON-OPERATING REVENUES (EXPENSES)			
Interest earnings	95,184	40,371	25,825
Gain (loss) on sale of assets	(6,459)	2,927	(4,987)
Other	--	6,953	--
Interest expense	--	(119)	(540)
Total non-operating revenues (expenses)	88,725	50,132	20,298
NET OPERATING INCOME BEFORE TRANSFERS			
Operating transfers to State Superintendent of Public Instruction, School Equalization Fund	5,584,861	4,198,310	4,168,887
Board of Crime Control	5,493,509	4,200,337	4,168,858
	89,325	--	--
NET INCOME (LOSS)			
Retained earnings, beginning of period	2,027	(2,027)	29
	(2,027)	--	(29)
RETAINED EARNINGS, END OF PERIOD	$ --	$ (2,027)	$ --

See the accompanying independent auditors' report and the notes to financial statements.

Statements of Cash Flows

	Years Ending June 30		
	1992	1991	1990
CASH FLOWS FROM OPERATING ACTIVITIES			
Net operating income before non-operating expense and transfers	$ 5,496,136	$4,148,178	$ 4,148,589
Adjustment to reconcile net operating income to net cash provided by operating activities:			
Amortization and depreciation	237,172	317,396	323,005
Book value of assets disposed	--	773	--
Decrease (increase) in:			
Accounts receivable	(58,528)	169,358	(107,498)
Inventory	33,250	(65,465)	25,518
Interest receivable	(4,918)	--	--
Prepaid expenses	6,371	(6,160)	(590)
Employee advances	--	940	(940)
Multi-State Lottery receivable	(29,014)	(542,809)	--
Increase (decrease) in:			
Accounts payable & accruals	76,958	11,345	243,863
Due to State Superintendent of Public Instruction, School Equalization Fund	144,960	(427,123)	--
Due to other state agencies	26,022	20,618	11,008
Accrued compensated absences	26,875	5,157	19,603
Estimated prizes payable	34,313	299,614	(809,999)
Deferred on-line revenue	84,371	(400)	20,029
Allowance for returned tickets	(104,834)	(18,142)	(140,071)
	5,969,134	3,913,280	3,732,517
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Operating transfers out to State Superintendent of Public Instruction, School Equalization Fund	(5,493,509)	(4,200,337)	(2,955,748)
Board of Crime Control	(89,325)	--	--
	(5,582,834)	(4,200,337)	(2,955,748)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payment of long-term debt	--	(95,251)	(189,204)
Acquisition of fixed assets and intangible assets	(25,800)	(48,317)	(66,033)
Proceeds from sale of fixed assets	15,870	17,790	7,716
Interest paid on fixed assets acquisition contract	--	(119)	(540)
Other	--	6,953	--
	(9,930)	(118,944)	(248,061)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned on cash equivalents	95,183	40,371	25,825
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	471,553	(365,630)	554,533
Cash and cash equivalents at beginning of year	975,605	1,341,235	786,702
CASH AND CASH EQUIVALENTS AT YEAR END	$ 1,447,158	$ 975,605	$ 1,341,235

See the accompanying independent auditors' report and the notes to financial statements.

Notes to Financial Statements
for Fiscal Years ending June 30, 1992 and 1991

1. Summary Of Significant Accounting Policies -

Organization. The Montana State Lottery was created in November 1986 by a referendum vote of the people of Montana. Section 23-7-101, Montane Code Annotated (MCA) establishes the provision of the code under which the Montana State Lottery operates. The Montana Lottery is operated by a five member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set the ticket price, number and size of prizes, conduct lottery drawings, enter into agreements to offer lottery games with other lottery states and prepare financial reports.

Disposition of revenue is a minimum of 45 percent for prizes, a maximum of 10 percent for commissions to sales agents, payment of operating expenses and the remaining revenue to the Office of Public Instructtion, School Equalization Aid Account and the Board of Crime Control.

The State of Montana provides certain services to the Lottery covering: central payroll, accounting, self-insurance, communication, motor pool and various other services. The costs charged to the Lottery for these services were approximately $1,410,000 and $1,320,000 in fiscal years ending June 30, 1992, and 1991, respectively.

Reporting Entity. The Lottery, a division within the Montana Department of Commerce, is considered a component unit of the oversight unit known as the State of Montana. There are no component units to be included with the Lottery as a reporting agency.

Basis of Accounting. The Lottery utilizes the accrual basis of accounting and is classified as an enterprise fund of the governmental proprietary fund type. Enterprise funds account for operations: a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred or net income is appropriate.

Revenue Recognition. Sales of lottery instant tickets are made to licensed retailers, who in turn sell the tickets to the public. Retailers receive a minimum 5 percent commission. Revenue is recognized when the tickets are delivered to the retailers. Tickets not sold by the retailer may be returned to the Lottery for credit. Sales are reduced for estimated ticket returns.

Sales of on-line lottery tickets, starting in early November 1989, are made by licensed retailers to the public with the use of computerized terminals. Retailers receive a 5 percent commission. Revenue is recognized on drawing dates. Tickets sold in advance for future drawings are recorded as deferred revenue until the ticket becomes valid for a drawing.

Prizes. Prize expense is recognized based on the predetermined prize structure for each instant ticket and on-line game. Free tickets are recorded as a reduction in revenue and not as prize expense.

Cash and Cash Equivalents. Cash and cash equivalents consist of interest-bearing deposits with the Montana Board of Investments in the State's short-term investment pool and cash on deposit with the State Treasurer which is part of the State's pooled cash and is not separately identifiable as to specific types of securities. These funds are highly liquid and may be drawn on daily. See the statewide audit for the level of risk associated with the cash and cash equivalents.

Cash is as follows:

Cash on deposit with State Treasurer	
June 30, 1992	$ 29,808
June 30, 1991	$ 564,655
Cash on deposit in short-term investment pool	
June 30, 1992	$1,407,200
June 30, 1991	$ 400,800
Cash in revolving check account	
June 30, 1992	$ 10,000
June 30, 1991	$ 10,000
Petty Cash	
June 30, 1992	$ 150
June 30, 1991	$ 150
Total	
June 30, 1992	$1,447,158
June 30, 1991	$ 975,605

Inventory. Inventories consist of tickets and supplies. Ticket inventory includes lottery instant tickets stored in the warehouse and with marketing representatives. The tickets are carried at cost using the specific identification method. Tickets are charged to cost of sales when sold and unsold tickets are charged to cost of sales upon the end or cancellation of a game.

Supply inventory is carried at cost and expensed as used.

Fixed Assets. Fixed assets are recorded at cost and depreciation or amortization is computed using the straight-line basis over the following estimated useful lives:

Computer	6 years
Software	5 years
Vehicles	3 years
Furniture & equipment	6 -10 years

Advertising License Fee. Advertising license fee is recorded at cost and amortization is computed using the straight-line basis over a 3-year estimated useful life.

Accounts Receivable. Accounts receivable represent amounts due the Lottery for purchased tickets. These amounts are electronically transferred within 28 to 34 days of instant tickets purchased, and weekly for on-line tickets purchased. The Lottery grants credit to licensed retailers throughout the State of Montana. An allowance for uncollectible acccounts is computed based on historical experience. The allowance for doubtful accounts was $985 and $0, respectively, at June 30, 1992 and 1991.

Compensated Absences. State employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Vacation leave may be accumulated to not exceed 2 times the maximum annual leave. Sick leave is earned at 12 days a year with no maximum accumulation. Upon retirement or termination, an employee is paid 100 percent for unused vacation and 25 percent for unused sick leave.

Joint Venture - Multi-State Lottery Association - In November 1989, the Montana State Lottery joined the Multi-State Lottery Association (MUSL). MUSL was created in September 1987 to operate a multi-state lottery game for the benefit of party lotteries. Each lottery participating in MUSL is represented on the Board of Directors. The Board's responsibilities are to initiate, promulgate, and administer a multi-state lottery game for the mutual benefit of the member lotteries.

As of June 30, 1992, MUSL's unaudited financial information is as follows:

Total Assets	$352,471,846
Total Liabilities	$352,194,457
Fund Balance	$ 277,389
Total Liabilities and Fund Balance	$352,471,846
Total Revenue	$ 2,240,279
Total Expenses	$ 2,061,060
Excess (Deficit) of Revenue Over Expenses	$ 179,219

2. Long-Term Debt - Long term debt consists of the following:

Installment purchase of Instant Lottery System software payable in monthly payments of $11,672 including no interest through March 1990 and $23,344 including no interest through February 1991.

6/30/92	$ --
6/30/91	$ 70,033

Less portion due within one year

6/30/92	$ --
6/30/91	$70,033

Long-term portion

6/30/92	$ --
6/30/91	$ --

3. Obligation to Transfer Funds to Office of Public Instruction, Equalization Aid Account - The remaining portion of gross revenue not used for payment of prizes, commissions, and operating expenses is transferred quarterly from the Lottery to the Office of Public Instruction, Equalization Aid Account. At June 30, 1992 and 1991, $1,237,357 and $1,092,397, respectively, were payable to the Office of Public Instruction, Equalization Aid Account. Operating transfers of $5,493,509 and $4,200,337 were reported during the fiscal years ended June 30, 1992, and 1991, respectively.

4. Lease Commitments - The Lottery has a lease for office and warehouse space in Helena, Montana. Lease expense included in the operating expenses is $80,400 and $81,600 for the fiscal years ending June 30, 1992 and 1991, respectively. Minimum future lease payments, under all non-cancellable leases, are $78,000 through 1997.

5. Employment Retirement System - The Lottery and its employees make contributions to the Montana Public Employees Retirement System (PERS) defined benefit plan. The Lottery is required to contribute for full-time employees at the rate of 6.417 percent of annual compensation under state statute. Employees are required to contribute 6.30 percent of annual compensation. Part-time employees have an option to belong to the retirement plan, depending upon hours worked. The Montana Public Employees' Retirement System does not segregate financial information for each participating entitiy.

The total number of Lottery employees covered during the year ended June 30,

1992 and 1991 was 35 and 36 respectively. The total payroll for the employees was $856,513 in 1992, and $782,269 in 1991. The Lottery's contributions were $56,106 and $50,093 for the years ended June 30, 1992, and 1991, respectively. Benefit eligibility is age 60 with at least 5 years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least 5 years of service. Monthly retirement benefits are determined by taking 1/56 times the number of years of service times the final average salary. Members' rights become vested after 5 years of service.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the system's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among employers. The Lottery is unable to determine the actuarial present value of credited projected benefits and net assets available for benefits since the information is available only on a total State basis, not agency basis.

The pension benefit obligation at June 30, 1991, for the State system as a whole was $1,173,852,092. The system's net assets available for benefits at cost on June 30, 1991, were $919,474,377 leaving an overall unfunded pension benefit obligation of $254,377,715. The Lottery's 1992 contribution represented approximately .01 percent of total June 30, 1992, contributions required of all participating entities. The Lottery is not responsible for any state system unfunded liability.

Ten-year historical trend information showing the State system's progress in accumulating sufficient assets to pay benefits when due is presented in the system's June 30, 1992, annual financial report. Only the first two years of the required 3-year trend information is available.

6. **Deferred Compensation Plan** - The Lottery's employees are eligible to participate in the State of Montana's deferred compensation plan. The State of Montana administers the plan by contractural arrangement with Nationwide Insurance.

7. **Contractural Arrangements** - A. Instant Tickets - The Lottery has signed agreements to purchase instant game tickets from Dittler Brother, Inc., through March 9, 1993. This contract may be terminated by the Lottery with proper notification.

B. Computer Hardware and Software Maintenance - The Lottery has signed an agreement for computer hardware and software maintenance from Stratus computer, Inc. for $5,110 per month.

C. On-line vendor - The Lottery has signed a contract with Automated Wagering International, Inc., a wholly owned corporation of Video Lottery Technologies, Inc. to provide on-line terminals, central computers, and telecommunication network through November 9, 1994. The contract provides for payments to be based on a percentage of weekly sales.

8. **Prize Contingencies** - Big Spin Jackpot - Certain Big Spin prizes awarded are payable to the winners in annual installments of 17 to 20 years, with the first payment being made by the Lottery. The Lottery has entered into agreements with an insurance company under which purchased annuities will provide payments corresponding to the Lottery's obligation to these prize winners. Because it is the intent of the Lottery that the insurance company will make future installment payments directly to each prize winner, neither the present value of the annuities nor the present value of future payments are reflected in the accompanying financial statements. The Lottery would be liable for such future payments in the amount of $3,734,559 if the insurance company was to default on their payments.

9. **Multi-State Lottery Receivable** - As a member of the Multi-State Lottery Association (MUSL) and the Lotto*America/Powerball game, the Lottery is required to contribute to a prize reserve fund maintained by MUSL. This fund is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund, as well as the interest earned on the Lottery's share of the fund, would be returned to the Lottery upon leaving MUSL (assuming that no unanticipated prize claims have been paid).

The Lottery contributes to the reserve fund through the set-aside for prizes. In addition the Lottery was required to contribute for its portion of the reserve fund accumulated since the start of the Multi-State Lottery. The Lottery made this payment in full as of June 1990, through an additional 2 percent of drawing revenue rather than making a lump sum payment. Payments made to the reserve fund are considered a portion of the prize expense associated with the on-line game.

The unreserved accounts were created by the MUSL Board in July 1990. The purpose of this account was to record interest earned on the prize reserve fund when the prize reserve fund balance is not below the ceiling amount. The amounts in the unreserved accounts can be used as approved by the Board.

As of June 30, 1992, the MUSL prize reserve fund had a balance of $24,802,045 of which the Montana Lottery's combined reserve and unreserved funds were $571,823.

10. **Lotto*America Prizes and Investments** - Prizes awarded to Lotto*America grand prize winners are paid 20 annual installments. The Multi-State Lottery purchases United States Treasury zero coupon bonds to finance the remaining installments of the grand prizes. The bonds are purchased in the name of the Montana State Lottery, but are held at the Multi-State Lottery.

As the bonds mature, the proceeds are forwarded to the Montana State Lottery and distributed to the grand prize winners on the anniversary date of each win.

As of June 30, 1992, Multi-State Lottery holds United States Government zero coupon bonds for the Montana State Lottery with a par value of $57,168,169. The approximate market value of these same bonds as of June 30, 1992, is $29,008,008. The Montana State Lottery has five Lotto*America winners as of June 30, 1992. The combined total of future prize payments owed to the winners as of June 30, 1992, is $57,165,000. The total annual payments due over each of the next five fiscal years is $3,053,000 per year. The present value of the future prize payments approximates the current market value of the bonds held for the Montana State Lottery.

Board of Crime Control Transfers - Recent legislation required the Montana State Lottery to pay 1.6 percent of net revenue each quarter of the current fiscal year to the Board of Crime Control. For subsequent fiscal years, the Montana State Lottery is required to pay 9.1 percent of annual net revenue to the Board of Crime Control. At June 30, 1992, $20,120 was payable to the Board of Crime Control. For fiscal year 1992, a total of $89,325 was transferred to the Board of Crime Control.

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